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# Farm Finance:

*what is  
a sound  
system?*

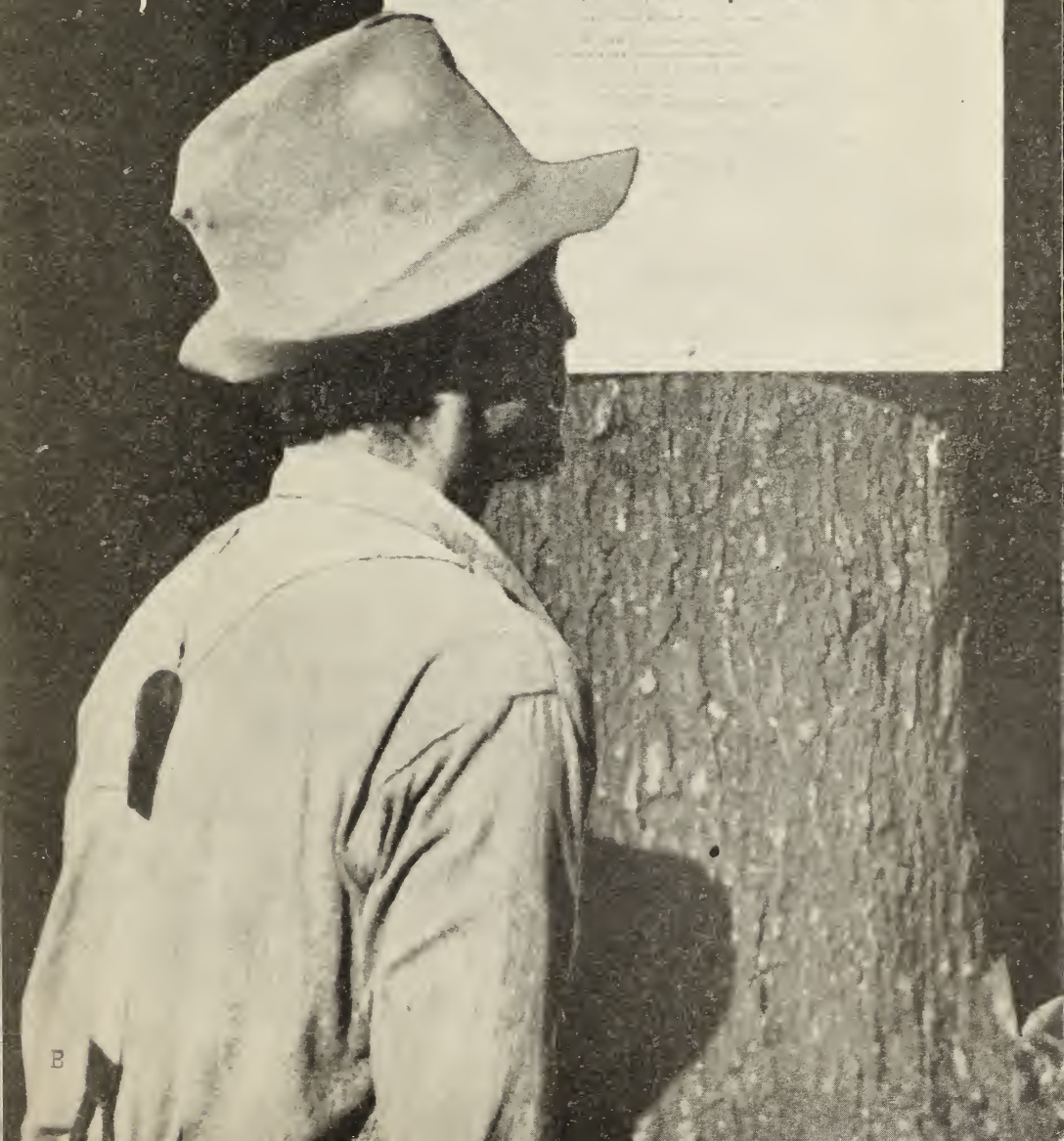
## THE FARM

BEST HOME OF THE FAMILY  
MAIN SOURCE OF NATIONAL WEALTH  
Foundation of Civilized Society

129 ACRES Fairfax County, Virginia Farm  
only 25 MILES from Washington, to be sold at

## AUCTION

Wed. Dec. 23, 1936, on the premises at 1:30 P. M.



This pamphlet has been especially prepared for use by discussion groups. Its purpose is to present, in brief form, some of the main facts about farm finance and some points of view on how the financing of certain needs can best be handled. No statement contained herein should be taken as an official expression by the Department of Agriculture.

The following questions are discussed:

- What do farm families borrow money for?
- How long do their loans run?
- Where does the money come from?
- How much do farmers' borrowings amount to?
- What is a sound system of farm finance?
- Cash or credit?
- Should farm land be bought on credit?
- Should farm families make budgets?
- What lending agencies are available?
- How long should loans run?
- Should debts be amortized?
- How much does credit cost?
- Should reserves be laid by in good years?

Copies of this pamphlet may be obtained free upon request addressed to the Extension Service, United States Department of Agriculture, Washington, D. C. Other pamphlets have been similarly prepared and are similarly obtainable.

#### SUBJECT-MATTER PAMPHLETS FOR THE 1936-37 SEASON

- DS-1 What Should Be the Farmers' Share in the National Income?
- DS-2 How Do Farm People Live in Comparison with City People?
- DS-3 Should Farm Ownership Be a Goal of Agricultural Policy?
- DS-4 Exports and Imports—How Do They Affect the Farmer?
- DS-5 Is Increased Efficiency in Farming Always a Good Thing?
- DS-6 What Should Farmers Aim to Accomplish Through Organization?
- DS-7 What Kind of Agricultural Policy Is Necessary to Save Our Soil?
- DS-8 What Part Should Farmers in Your County Take in Making National Agricultural Policy?

#### SUBJECT-MATTER PAMPHLETS FOR THE 1937-38 SEASON

- DS-9 Taxes: Who Pays, What For?
- DS-10 Rural Communities: What Do They Need Most?
- DS-11 Soil Conservation: Who Gains By It?
- DS-12 Co-ops: How Far Can They Go?
- DS-13 Farm Finance: What Is a Sound System?
- DS-14 Crop Insurance: Is It Practical?
- DS-15 Reciprocal Trade Agreements: Hurting or Helping the Country?
- DS-16 Farm Security: How Can Tenants Find It?

#### PAMPHLETS ON THE DISCUSSION METHOD

- D-3 What Is the Discussion Leader's Job?

United States Department of Agriculture

The Extension Service and the  
Agricultural Adjustment Administration Cooperating  
(Illustrations by Farm Security Administration and Extension Service)

## FARM FINANCE: WHAT IS A SOUND SYSTEM?

It doesn't take very much time to run up quite a list of things which farm people, wisely or unwisely, borrow money to get.

### WHAT DO FARM FAMILIES BORROW MONEY FOR?

Farm families sign mortgages to buy land.

They get loans to put up barns, corn cribs, hay mows, all sorts of farm buildings.

They get loans to buy tractors, binders, separators, all sorts of machines.

They borrow money to purchase livestock.

They sign notes for feed, seed, fertilizer.

They buy stoves, furniture, washing machines, radios on the installment plan.

They run bills with the doctor, the dentist, the veterinary.

They run bills with the commissary, the time merchant, the cross roads store.

### HOW LONG DO FARMERS' LOANS RUN?

The length of time for which they borrow these funds differs a lot according to the purpose for which the money is used. Mortgages on land usually run from 5 to 35 years. The life of loans for permanent improvements ranges from a few months to several years. Many notes fall due after 90 days; some run for 60 and others for 30. Intermediate between these long term and short term credits are loans made to finance the raising and marketing of crops and livestock, which run until the usual time of harvest or sale. Installment plans often give the purchaser "6 months to pay." Bills for goods and services obtained from people in the community may be settled monthly, or, in share-crop



sections, at the end of the crop season; some of them run on until the creditor asks the sheriff to step in.

### WHERE DOES THE MONEY COME FROM?

The money which farm families borrow comes from a good many sources. Some of it comes directly from individuals, relatives, neighbors, retired farmers. Some of it is credit advanced by merchants and stores. Some of it is provided by banks and some by insurance companies that wish to invest funds entrusted to their charge. Some of it is obtained under the Farm Credit Administration through the Federal land banks and land bank commissioners. The variety of sources and the amounts loaned for one class of debt—farm mortgages—is shown by the following table:

Percentage of farm real estate debt held by principal classes of lenders, Jan. 1, 1928 and Jan. 1, 1935.

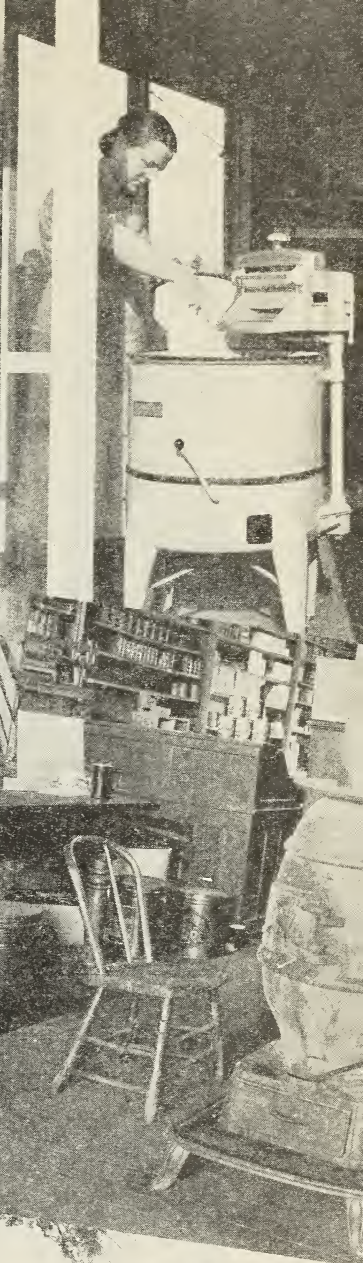
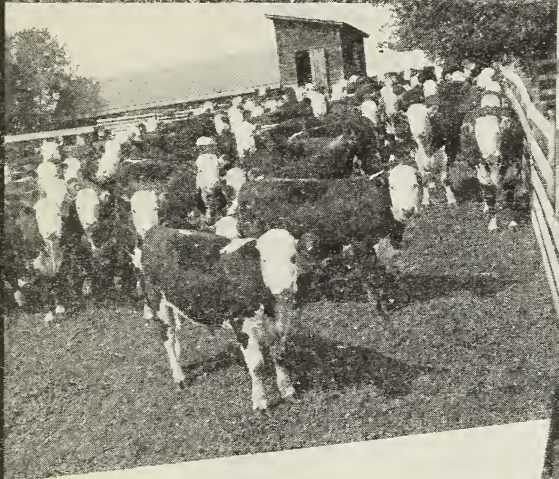
Class of lender	Percentage of total held	
	Jan. 1, 1928	Jan. 1, 1935 <sup>1</sup>
Life insurance companies.....	22.9	16.3
Federal land banks.....	12.1	32.7
Land Bank Commissioner.....		
Commercial and savings banks.....	10.8	9.0
Mortgage companies.....	10.4	3.4
Joint-stock land banks.....	7.0	3.4
Individuals.....	29.6	24.6
Others.....	7.2	10.6
Total.....	100.0	100.0

<sup>1</sup> Preliminary.

### HOW MUCH DO FARMERS' BORROWINGS AMOUNT TO?

Figures on the total borrowings of farm people are obviously impossible to get, but figures for particular types of borrowing are available. The total mortgage debt on farm land and buildings at the beginning of 1935 amounted to \$7,645,091,000. In that year 34.5 percent of all farms were mortgaged; farms operated by their owners bore 64

FARMERS GET THESE THINGS ON CREDIT





percent of the total debt. The distribution of this debt is shown in table A.

Table A.—Number of mortgaged farms with the amount of farm mortgage debt by tenure of operator, by geographic divisions: 1935

Geographic division	Mortgaged farms					
	Number			Percent mortgaged		
	All tenures	Owners	Managers and tenants	All tenures	Owners	Managers and tenants
United States.....	2,350,313	1,619,165	731,148	34.5	41.5	25.1
New England.....	68,633	64,974	3,659	43.4	45.2	25.1
Middle Atlantic.....	144,876	131,421	13,455	36.4	40.0	19.3
East North Central.....	416,356	341,605	74,751	38.4	45.1	23.0
West North Central.....	495,575	367,098	128,477	42.0	54.7	25.2
South Atlantic.....	277,609	166,633	110,976	24.2	27.4	20.6
East South Central.....	325,005	160,351	164,654	28.6	31.4	26.3
West South Central.....	386,166	190,651	195,515	34.0	41.9	28.7
Mountain.....	102,649	84,576	18,073	37.8	43.1	24.1
Pacific.....	133,444	111,856	21,588	44.6	49.2	29.9

Geographic division	Farm mortgage debt					
	Total amount			Average debt per farm		
	All tenures	Owners	Managers and tenants	All tenures	Owners	Managers and tenants
United States.....	<i>Dollars</i> 7,645,091,000	<i>Dollars</i> 4,895,811,000	<i>Dollars</i> 2,749,280,000	<i>Dollars</i> 3,253	<i>Dollars</i> 3,024	<i>Dollars</i> 3,760
New England.....	181,952,000	157,138,000	24,814,000	2,651	2,418	6,782
Middle Atlantic.....	409,730,000	345,438,000	64,292,000	2,828	2,628	4,778
East North Central.....	1,532,935,000	1,053,876,000	479,059,000	3,682	3,085	6,409
West North Central.....	2,676,067,000	1,662,989,000	1,013,078,000	5,400	4,530	7,888
South Atlantic.....	401,946,000	259,254,000	142,692,000	1,448	1,556	1,286
East South Central.....	348,966,000	208,766,000	140,200,000	1,074	1,302	851
West South Central.....	877,537,000	462,206,000	415,331,000	2,272	2,424	2,124
Mountain.....	462,431,000	278,694,000	183,737,000	4,505	3,295	10,166
Pacific.....	753,527,000	467,450,000	286,077,000	5,647	4,179	13,252

## WHAT IS A SOUND SYSTEM OF FARM FINANCE?

Clearly, if farm debts run into billions, the system under which farm operations are financed is of great importance both to farmers and to the country as a whole.

What is a sound system of farm finance? When a group starts discussing that question, answers are likely to come fast—and sometimes furious! Let's imagine ourselves looking in on such a group and watching the impact of facts, opinions, and personalities.



## CASH OR CREDIT?

From one or another of the neighbors seated around the meeting room, both extremes are almost certain to be heard:

Mr. Keith is likely to say—"There are no two ways about it: to be run right, a farm has got to be run on a cash basis. The fellow who buys land for cash will never have a mortgage payment hanging over him. Seed and stock bought for cash don't have to pay back interest when they come to market. Cash down buys machinery at a discount. And as for paying a dollar down and a dollar a month for the rest of your life just to get gadgets to have around the house—well, I have my opinion of people who do that-a-way."

His last remark stirs up Mrs. Lawson. "You can call them gadgets all you like," she bursts out, "but if you mean it's a bad thing for me to have the new stove and my washing machine, and my iron and the radio, just because they're being paid for on installments, I'm telling you different. With a family the size of ours, there's too much work as it is, and if I can see a way to make it easier, I'm certainly going to do it. What if I find I can't pay for so many things right on time; what if the company comes and takes them back, even—I'll have had the use of them, won't I? Living on credit may not be the best way to live, but if you haven't got cash how else are you going to manage?"

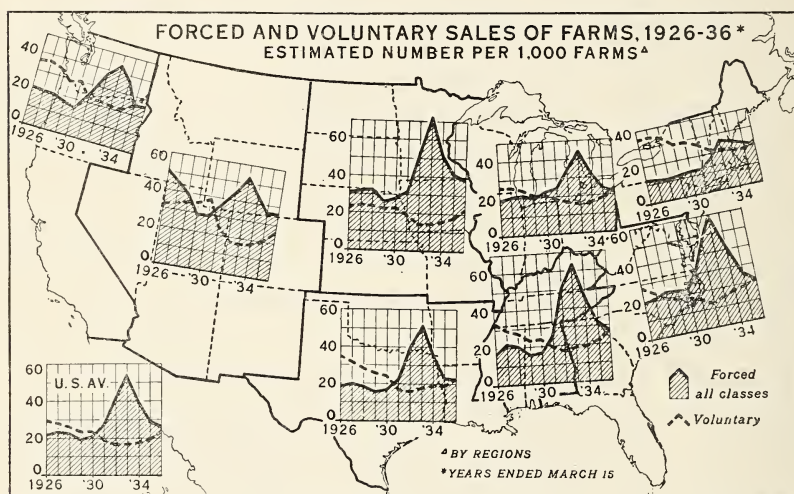
## SHOULD FARM LAND BE BOUGHT ON CREDIT?

"Well now," Mr. Thomas tries to smooth things over, "does it have to be either all cash or all credit? The way it looks to me, there's some things it's a lot better to pay cash for, and there's some things it's perfectly all right to get on credit. Of course, if we all had all the cash we need, Mr. Keith, I'd be with you in saying farms ought to be run on a cash basis.

"But suppose a fellow wants to farm, hasn't got a farm and hasn't got the money to buy one cash down. Now he could rent a farm, and if he wasn't planning to stay at farming very long I expect that'd be all right. But suppose

he wants to stay on a farm all his life and bring up his children there. If he rents a place, he doesn't have any way of being sure that he can buy it after he's saved the money; if he has to move he has to leave behind everything he's ever done in the way of improvements, and he doesn't want to pull his family up by the roots and go somewhere else, anyway. I think a fellow like that has a right to buy a farm on credit."

Mr. Keith is not to be downed: "When you were coming to this meeting, you didn't see any auction sign on the tree at the corner, did you?" he asks pointedly.



"I didn't say that every farm that's mortgaged ought to have been financed by credit," comes the rejoinder. "If a man is going to buy a place, there are a lot of things he ought to look into. I know as well as you do that some prices around here are way out of line; if the owners got what they're asking the man that bought wouldn't have any more chance to pay out than a jackrabbit. And that's not all. A fellow ought to be sure that the land is suited to the kind of farming he wants to do. Lots of people who are fine farmers when it comes to raising grains are no good with livestock. Fruit farming and trucking are pretty specialized businesses. And a second

question he ought to ask is, 'Are there people in the neighborhood making money off the thing I want to try?' "

"There's still another question he ought to ask himself," adds Mrs. Brooks, who has been nodding assent to what Mr. Thomas has to say. "How's the family going to like it? There was a place a couple of miles back of us sold last year—you probably know the one I mean—where the hitch wasn't the farm—it was the family. Or I guess really it was the mud. That road in there was so bad the children couldn't get to school half the time, and she never got out where she could see anybody, and finally they all got so discouraged that they up and quit."

"Yes, farming's a family business, all right," Mr. Thomas concurs, "but I think you'll agree that where the family is ready to pull together, they can buy a farm on credit and make the grade."

"That depends on how much of a grade they try to make." Mr. Kilroy works for a credit union and knows whereof he speaks. "Any family that borrows money ought to know just what they're borrowing for and what it's going to cost them. They ought to sit down with a pencil and paper and figure what they want to get with the money they borrow, and how what they get is going to make money to help them pay back. Unless they can see their way through to the end of the deal, they oughtn't to borrow."

#### SHOULD FARM FAMILIES MAKE BUDGETS?

"I've always believed in budgets," agrees Mrs. Brooks. "I say, get the whole family together and put down what you have to spend, and what you want to spend it for. Figure out what everybody's share is, and then see to it that everybody keeps track of all that's spent."

"Show me the family that ever stuck to a budget," Mr. Keith's tone is scornful, "and anyhow, I say that the man, as head of the family, is the one who ought to look out for its business affairs."

"And I say," Mrs. Brooks' voice is crisp, "that for every man who's so much the head of the family that he can't





talk over how the money's to be spent, there's likely to be a farm woman tucking away a little egg or butter money on the side, just to have something that she can plan for and spend on her own. And we all know widows of people like that who are swindled out of everything they have because 'John never said a word to me about things in a business way.'

"And it's not only the wives that ought to be in on the farm business, it's the children. If children know how much of the farm income is being spent on them, they're more likely to appreciate things their parents do. And if they see what they earn counted as part of the family income they take more pride in their little jobs."

#### WHAT LENDING AGENCIES ARE AVAILABLE?

"We've been talking a lot about if and when it's a good thing to borrow," Mr. Vogel's voice is heard for the first time. "I'd like to hear what people have to say about who people borrow from."

## Finance Companies

"The other day I went to town and left my car parked for a couple of hours, and when I came back there was a card stuck into the door asking me did I want to borrow money on it. The man who left it was further up the line sticking cards in some other cars; he came back and talked to me and I figured out that if I got money from him on the terms he offered, it would have cost me about 42 percent a year. Yet his line of talk was so smooth I suppose there are plenty of people who are paying him that right now."

## Installment Buying

"Of course there are. And he's not the only smooth salesman," Mr. Keith seems for once to be in full agreement, "half the boys who come out of high school nowadays seem to spend their time going around selling people things they can't afford on 'Our Simple Payment Plan,' when it's the people they're selling to who are simple." His eye wanders to Mrs. Lawson.

"That may all be true," Mrs. Lawson rises to the challenge, "but I say that if you don't buy things on time you never get them at all. I've tried lots of times to put money away and start a fund to get something we needed, and every time, just as soon as I had a few dollars laid aside, something else would come along and wipe it out. So now I've decided that the best thing to do is to get the things I need most on credit; then I know I'll have the use of them, and if we have that payment to make we'll find the money to meet it somehow."

## Time Merchants

"What we ought to do," states Mrs. Brooks with conviction, "is to start some cooperative stores and use them to get the things we usually buy on the installment plan. I don't think many of us realize what things like household goods and supplies cost when we buy them on time. What the storekeeper loses on bad accounts gets added to the prices we pay, and so does all the overhead he has

to carry to keep books, send out bills, and make collections, and the interest on the money he has borrowed to get his stock. If we traded for cash at cooperative stores that gave us patronage dividends, we could buy some of the things outright that we now buy on the installment plan."

"Well, deferred payments aren't necessarily all wrong," Mr. Vogel continues the conversation. "Only you ought to know how much they're costing you. When people buy equipment—either farm machinery or things for the home—they ought to figure what it costs them to get it on time, and then see if it would be cheaper to get a loan from some reliable credit agency and use the money to pay for the equipment in cash and get the cash discount on it.

### Country Banks

"If a farmer who needs credit, say to buy equipment, will go to his local banker and talk things over, lots of times he can get a loan which will cost him less, for the principal and interest, than the price of the equipment plus the cost of paying for it on time."

### Production Credit Associations

"That's where a production credit association can sometimes help out too," Mr. Kilroy added. "Farmers in a county or some such area who form a production credit association can loan money to proper risks on favorable terms. There are over 550 such associations in the country; more than a quarter of a million farmers belong to them. Last year they made new loans totaling a quarter of a billion dollars."

### HOW LONG SHOULD LOANS RUN?

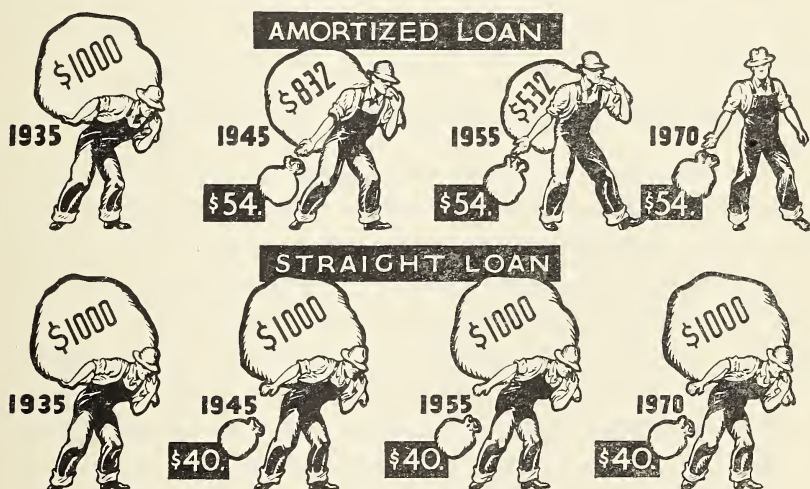
"It's not only the agency that farmers get money from that's important," Mr. Vogel comments. "Another thing a farmer has to watch out for is to see that the due date on his borrowings comes at a time when he'll have the money to pay. Long-term and short-term credit are two different things. A fellow who arranges for short-term



credit ought to figure his loan in with his current expenses, which the crop or the livestock or whatever it is he's raising will bring enough to pay for. Too many farmers have got loaded up with short-term debts and used the money for long-term expenditures; and then when the loans came due they've had to sell some of their livestock or equipment or something at a loss, to get the ready cash."

"Yes," assented Mrs. Brooks, "it stands to reason that a man who borrows money to finance a grain crop is going to need credit for a different period from somebody who's buying land. I think the agricultural credit agencies ought to make it possible for him to get money for just the period that he's going to need it; and I think farmers ought to be careful to get just the kind of loan they really need."

## The Amortization plan pays off principal and reduces interest



### SHOULD DEBTS BE AMORTIZED?

"Another thing that's important for people who need long-term credit, say credit to buy a place or to put in lasting improvements," Mr. Thomas contributes, "is to have their debt amortized. Then they know they can have

the use of the money for a long enough period so they can pay off. People who get short-term mortgage loans are likely to have a big surprise coming to them. Until the mortgage falls due, they're awfully likely not to keep in mind anything but the interest. Then first thing they know, there's the principal to pay, and what's worse, sometimes the creditor wants his money back and won't give a renewal."

#### HOW MUCH DOES CREDIT COST?

"One reason why I'm for cash instead of credit," Mr. Keith comes back into the conversation, "is because a farmer never really knows how much he's going to pay for his credit, if he converts his interest back into the commodities he uses to pay it with. Suppose a man had a mortgage from 1928 to 1932, or from 1932 to 1937—think of the different amounts of corn, or cotton, or beef, or whatever he might have raised that he would have had to sell to meet his interest. If you look back of the dollar sign, you never can tell what your loan is going to cost you, and so I say, don't make one in the first place."

#### SHOULD RESERVES BE LAID BY IN GOOD YEARS?

"Well, there's one new arrangement that ought to be a big help along those lines," Mr. Vogel suggests, "and that is the legislation that makes it possible for borrowers from the Federal land banks to deposit funds for later use in making payments on Federal land bank loans. In other words, in good years a farmer can make deposits that draw interest until he needs them. That means that if he has a crop failure, or big expenses because of sickness in the family, or if there's a general depression, he will be able to keep his payments up without sacrificing something."

For what purposes do you think farm families are justified in using credit? For what purposes is it undesirable that farm families should borrow money?

What agencies are available as sources of funds for farm families?

What improvements can you suggest in the operation of these agencies?

In what ways does a sound system of farm finance differ from a sound system of industrial finance?



## MORE ABOUT FARM FINANCE

(Quantity prices may be obtained on many of these publications)

Because of the technical character of the subject of this pamphlet, technical as well as popular materials have been included in the bibliography where popularly-priced references could be found.

### Popular Pamphlets

- CREDIT FOR AGRICULTURE IN 1936. Circular A-11, Farm Credit Administration, Washington. 1937. Free.
- ABC'S OF CREDIT FOR THE FARM FAMILY. Circular 15. Farm Credit Administration, Washington. 1937. Free.
- COOPERATIVE FARM MORTGAGE CREDIT, 1916-1936. Farm Credit Administration, Washington. 1936. Free.
- IMPROVING OUR RURAL CREDIT FACILITIES. W. I. Myers, Circular A-10, Farm Credit Administration. 1936. Free.
- CREDIT FOR CONSUMERS. Public Affairs Committee, 8 West 40th Street, New York City. 1936. \$0.10.
- A HISTORY OF OUR TIMES. A. H. Moehlman and H. M. Sayre. American Education Press, 40 South 3rd Street, Columbus, Ohio. 1936. \$0.50.
- TO TELL YOU THE TRUTH. W. T. Foster. Pollak Foundation, Newton, Mass. 1933. \$0.05.
- AGRICULTURAL FINANCING THROUGH THE F. C. A. Circular No. 5, Farm Credit Administration, Washington. 1936. Free.
- THE FARMERS' STAKE IN COOPERATIVE CREDIT. W. I. Myers, Circular A-7, Farm Credit Administration. Washington. 1936. Free.
- AGRICULTURE'S NEED FOR SPECIAL CREDIT FACILITIES. J. L. Robinson. Farm Credit Administration. Washington. 1937. Free.

### Technical Pamphlets

- LONG-TERM DEBTS IN THE U. S. D. C. Horton. Domestic Commerce Series No. 96, U. S. Dep't. of Commerce. Superintendent of Documents, Washington. 1937. \$0.20.
- FARM MORTGAGE CREDIT. D. L. Wickens. Technical Bulletin No. 288. U. S. Dept. of Agriculture. Superintendent of Documents, Washington. 1932. \$0.20.
- AGRICULTURAL LOANS OF COMMERCIAL BANKS. N. J. Wall. Technical Bulletin No. 521, U. S. Dep't. of Agriculture. Superintendent of Documents, Washington. 1936. \$0.10.
- FEDERAL CREDIT FOR AGRICULTURAL COOPERATIVE ASSOCIATIONS IN THE U. S. N. J. Wall. Series on Cooperatives No. 5. Pan American Union, Washington. 1937. Free.
- RECENT AGRICULTURAL CREDIT DEVELOPMENTS RELATING TO COMMERCIAL BANKS. Bureau of Agricultural Economics, U. S. Dep't. of Agriculture, Washington. 1937. Free.
- OUTSTANDING FARM MORTGAGE LOANS OF LEADING LENDING AGENCIES. N. J. Wall. Bureau of Agricultural Economics, U. S. Department of Agriculture, Washington. 1937. Free.